See AN/1951-4

United States Department of Agriculture | Farmers Home Administration | Washington D.C. 20250

FmHA AN No. 649 (1951)

February 26, 1982

SUBJECT: Calculating Payments ~~for Farm Ownership~~ Limited Resource Loans with Automatic Interest Rate Increase

TO: All State Directors, District Directors, and County Supervisors, FmHA

Requests are being received for instructions on how to calculate the annual installment for Farm Ownership Limited Resource Loans (FO-LR) in the year of the automatic interest rate increase. FmHA Instruction 1951-A, Section 1951.25, contains procedure to be followed for making reviews of limited resource loans and processing changes in interest rates.

An FO-LR loan with the automatic interest rate increase has an interest rate change on the third anniversary date of the note. To calculate the payment for that year, it is necessary to calculate part of the year at the 3 percent interest rate and the balance of the year at the new interest rate.

For example: A $100,000 FO-LR loan with a 40-year term was closed August 8, 1978, at 3 percent interest for the first 3 years with an automatic increase to 5 percent for at least the next 2 years. The installments are due January 1 of each year. Initially, the installments were calculated in the normal manner.

At the time of the automatic increase in interest, we suggest that you obtain a principal balance for the loan from the Finance Office Inquiry Station, taking into consideration any recent collections or uncollectable items, as of the date of the change in interest rates. The annual installments at 3 percent interest would be:

$4,327 annual installment at 3% interest
$4,327 ÷ 365 days = $11.85 per day
1/1/81 to 8/8/81 = 220 days
$11.85 x 220 = $2,607 payment due for 3% rate

The principal balance on August 8, 1981, is calculated at $96,459. The remaining term of the loan is 37 years. The annual payment factor for 5 percent interest for 37 years is $59.84 per $1,000.

$59.84 x $96.459 = $5,772 annual installment at 5% interest
$5,772 ÷ 365 = $15.81 per day
8/8/81 to 1/1/82 = 145 days
$15.81 x 145 = $2,292.45 payment at 5%

EXPIRATION DATE: February 28, 1983 SAVE

FILING INSTRUCTION: Preceding FmHA Instruction 1951-A

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$2,292 + $2,607 = $4,899 annual installment due for year of change in interest rate. This figure would be inserted on Form FmHA 1951-4, "Change in Rates and Terms," in section 4, item 15. If delinquent interest is also due, it will be added to this installment if it is reasonably expected that the borrower will be able to pay it by the next installment date.

The delinquent interest may be obtained from the Form FmHA 451-26, "Transaction Record," for the transaction code 4.M generated from the annual maturing of the installments. There is no delinquent interest if the record reflects that the borrower is on or ahead of schedule and, therefore, any amount of unpaid interest shown on the form should be ignored. The delinquent interest that is to be included in the new installment should not exceed the amount shown as behind schedule.

Any payments made on the account in the interim period (the period from the time of the calculation of the new installment to the effective date of the change in interest rate) could change the amount of the installment. The Finance Office has informed us that, in some cases, they are receiving the Form FmHA 1951-4, four to five months in advance of the effective date. Such a long period of time increases the chances of FmHA receiving a payment in the interim period of time.

The regular annual installment is calculated by applying the annual payment factor for 5 percent interest for 37 years ($59.84 per $1,000). This figure would be inserted on Form FmHA 1951-4 in section 4, item 16. It is not necessary to obtain a new promissory note when only a change in interest rate is made.

All calculations should be carefully checked by another employee as the Finance Office, in most cases, will use the county office's calculated installments.

The same procedure does not apply to deferrals or reamortizations. Section 1951.40 of FmHA Instruction 1951-A contains the procedure for deferment and reamortization. If a limited resource FO account is reamortized after the first 3 years, the current limited resource interest rate (presently 6.625%) or a higher rate must be used. A new promissory note is required for reamortization.

If an FO-LR borrower is unable to make up the delinquency by the next installment date, consideration should be given to reamortization of the loan. If the loan is reamortized, the delinquent interest will be added to the principal balance. The reamortize block at the top of Form FmHA 1951-4 will also be checked. Borrowers have appeal rights for reamortization and/or changes in interest rates if the increase in the interest rate is not automatic. Reamortization may also affect the FmHA lien. You should have consulted your Regional OCC for advice on effect of reamortization under State law.

CHARLES W. SHUMAN
Administrator